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Satellite Firm Will Launch Offering

DigitalGlobe Hopes to Capitalize on Government's Need for Intelligence Data

By Lynn Cowan

The Obama administration's plans to use more commercial satellite imagery for intelligence gathering will propel the IPO of DigitalGlobe Inc. into the market this week.

DigitalGlobe, which derived three-quarters of its 2008 revenue from the U.S. government, is set to trade Thursday on the New York Stock Exchange under the symbol DGI. Though the initial public offering is considered a strong one by analysts, the company first filed to go public in April 2008, just ahead of a free fall in the broader markets.

The deal languished alongside dozens of others as the IPO market became dormant, but swiftly set an offering date late last month, just weeks after the U.S. intelligence director came out with a plan -- with funding yet to be approved by Congress -- to increase its purchases of images from DigitalGlobe and rival [GeoEye](#) Inc. GeoEye's stock, which tumbled last year, closed Friday at \$27.69, up more than 40% for 2009.

The increased government spending "will benefit both companies. It's not a game of one wins and the other loses. Demand is currently exceeding the capacity available for the government," says Paul Bard, research director at Renaissance Capital, which specializes in IPO research. "There are also huge barriers to entry, and because of that, very high profit margins. You can't just build a satellite in your garage and throw it up there."

It is easy to see why the barriers to entry are so high: Satellite development and launch is expensive. DigitalGlobe, of Longmont, Colo., became profitable for the first time three years ago. In 2008, its revenue rose 81% to \$275 million and operating income more than doubled to \$92 million, compared to a year earlier (tax expenses knocked its net income 44% below 2007's). In the first quarter of 2009, revenue declined 2% as sales slowed in its smaller commercial customer segment, and net income went down 25% as compensation expenses rose compared to the same period a year ago.

There is a clear downside to the technical expertise needed for satellites: Their operations can be delayed or completely fail. Of the four satellites DigitalGlobe has launched since its incorporation in 1994, one had its power system fail within days of orbit in 1997, and in 2000, another never achieved orbit.

One of its two remaining satellites is approaching the end of its expected life in 2010, while plans to put its newest one into orbit have been bumped from September into October by launch operator [Boeing](#) Co. Although the company carries insurance on its satellites, the amounts aren't enough to cover the cost of replacing them.

While the chance of failure is real, once a launch is successful, having a steady customer like the U.S. government makes for a more predictable financial ride, says Claude Rousseau, a senior analyst at telecommunications research and consulting firm Northern Sky Research LLC.

"The U.S. government is acting like an anchor tenant, creating a sure stream of revenue before it's even launched," Mr. Rousseau says. "That brings down the risk."

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Debut Details

DigitalGlobe Inc.

Headquarters: Longmont, Colo.

Revenue for 2008: \$275 million

Offer Size: 14.7 million shares

Price Range: \$16 to \$18

Ticker: DGI

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